

**Clayton Township
Arenac County, Michigan
Financial Report
With Supplemental Information
March 31, 2005**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CLAYTON TOWNSHIP	County ARENAC
Audit Date 3/31/05	Opinion Date 9/9/05	Date Accountant Report Submitted to State: 9/19/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ROBERTSON & CARPENTER, CPAs, LLP			
Street Address 103 E MAIN STREET, PO BOX 69		City ROSE CITY	State MI
Accountant Signature <i>Robertson & Carpenter, CPAs, LLP</i>		ZIP 48654	Date 9/19/05



Rodney C. Robertson, CPA
Robert J. Carpenter, CPA

ROBERTSON & CARPENTER, LLP

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 69 • 103 E. Main Street • Rose City, Michigan 48654

Phone (989) 685-2411 • Fax (989) 685-2412

Other office: Mio, Michigan

September 9, 2005

Township Board
Clayton Township
Arenac County, Michigan

Dear Township Board:

As a part of our biennial audit at March 31, 2005, we submit for your consideration certain comments and recommendations which we feel would strengthen your overall accounting and internal control system for the Township.

BUDGETING

There was one unfavorable budget variance as noted in the financial statements. The budget should be monitored periodically and amended as necessary.

CLERK'S ACCOUNTING RECORDS

The Clerk's accounting journals and general ledger were not prepared until after the end of the fiscal year. The Clerk's ledger should be posted and balanced in a timely manner. This would also assist in monitoring and amending the budget as necessary.

FEDERAL TAX LIABILITIES

The employer federal tax deposits of social security and Medicare tax were often filed and paid after the due dates. The payments and report filings should be done in a timely manner.

DOCUMENTATION OF EXPENSES

Documents supporting several checks written during the year could not be located for audit. Proper documentation should be retained for all expenditures. To improve the filing system, the invoices could be attached to the Township copies of the checks.

DISTRIBUTION OF TAX COLLECTIONS

The checks written to disburse the final property tax collections were not disbursed until early April, 2005. Tax distributions should be made by the dates prescribed by law.

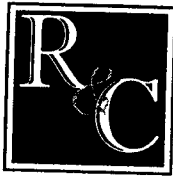
Respectfully submitted,

ROBERTSON & CARPENTER, LLP
Certified Public Accountants

Clayton Township

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INDEPENDENT AUDITOR'S REPORT

Township Board
Clayton Township
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Clayton Township as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Clayton Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Clayton Township as of March 31, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of April 1, 2004.

The management's discussion and analysis and budgetary comparison information on page 3 through page 8 and page 24 to 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson & Carpenter, LLP, CPA's

Robertson & Carpenter LLP
Certified Public Accountants
September 9, 2005

Management's Discussion and Analysis

As management of Clayton Township (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2005.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$250,936 (*net assets*). Of this amount, \$228,968 (*unrestricted net assets*) may be used to meet the Township's ongoing obligations
- The Township's total net assets decreased by \$10,189.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$226,399, a decrease of \$ 6,231 in comparison with the prior year. The General Fund balance is \$226,399 at March 31, 2005, 100% of the total fund balances. The fund balance in Special Revenue fund is \$ -0-.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$226,399 or 173% percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *Government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick or vacation leave).

Both of the Government-wide financial statements present functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Township include general government, public safety, public works, and recreation. The Township has no business-type activities as of and for the year ended March 31, 2005.

The Government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Road Fund.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund and Road Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are *not* reflected in the Government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 14 and 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-23 of this report.

Government-wide Financial Analysis

[Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of Township-wide data will be presented.]

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded its liabilities by \$250,936 at the close of the most recent fiscal year.

A portion of the Township's net assets (10%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Township's Net Assets

	<u>Governmental Activities</u>
Current and Other Assets	\$ 234,795
Capital Assets, Net	21,968
Total Assets	<u>\$ 256,763</u>
Current Liabilities	5,827
Total Liabilities	<u>\$ 43,677</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	21,968
Unrestricted	<u>228,968</u>
Total Net Assets	<u>\$ 250,936</u>

The Township's net assets decreased by \$10,189 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$ 8,800 or 4%, during the fiscal year ended March 31, 2005.

Township's Changes in Net Assets

	<u>Governmental Activities</u>
Revenue:	
Program Revenue:	
Charges for services	\$ 4,300
Operating Grants and Contributions	3,223
General Revenue:	
Property Taxes	53,044
State-Shared Revenues	79,479
Interest and Rent Earnings	2,161
Other	2,575
Total Revenue	\$ 144,782
Expenses:	
General Government	\$ 75,131
Public Safety	6,064
Public Works	69,628
Recreation	4,148
Total Expenses	\$ 154,971
Decrease in Net Assets	10,189
Net Assets, Beginning of Year	261,125
Net Assets, End of Year	\$ 250,936

Governmental activities. The Township's governmental revenues increased by \$ 2,495 from the preceding year. The Township received \$ 3,223 as the first annual payment under the Metro Act for right of way maintenance. Expenses increased by \$ 49,719. The Township expenses for road maintenance increased by \$ 44,301 compared to the prior year.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$226,399, a decrease of \$ 6,231 in comparison with the prior year. The entire amount constitutes *unreserved fund balance*, which is available for spending at the Township's discretion. None of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in special revenue funds and are not available for current expenditure.

The general fund is the principal operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$226,399. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 147% of total general fund expenditures.

The fund balance of the General Fund decreased by \$6,231 during the current fiscal year.

The fund balance of the Road Fund did not change during the current fiscal year.

General Fund Budgetary Highlights

The Township's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The general fund and road fund budgets were not amended during the year.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental activities as of March 31, 2005, amounted to \$21,968 (net of accumulated depreciation). Investment in capital assets includes land, land improvements, buildings, and equipment. Additions totaled \$575 for the fiscal year.

Township's Capital Assets (net of depreciation)

Land	\$	5,162
Land improvements		551
Buildings and improvements		1,585
Furniture and Equipment		14,670
		<hr/>
Total	\$	<u>21,968</u>

Additional information on the Township's capital assets can be found in note 5 on pages 21-22 of this report.

Long-term debt. The Township did not have any debt outstanding during the fiscal year.

Factors Bearing on the Township's Future

The following factors were considered in preparing the Township's budget for the 2005-2006 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2004-2005, the Township received \$79,479 in state shared revenue, representing 54% of the revenues in the General Fund. The amounts of state shared revenues for future periods are uncertain and will affect the Township's budgets. Our budgets were prepared with these factors in mind and will need to be revised as needed.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Clayton Township
Township Hall
Sterling, Michigan 48659

Clayton Township
Statement of Net Assets
March 31, 2005

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 207,485
Receivable-net (Note 4)	8,161
Due from other governments	19,149
Capital assets-net	<u>21,968</u>
Total assets	<u>256,763</u>
 Liabilities	
Accounts payable	<u>5,827</u>
Total liabilities	<u>5,827</u>
 Net Assets	
Invested in capital assets, net of related debt	21,968
Unrestricted	<u>228,968</u>
Total net assets	<u>\$ 250,936</u>

See accompanying notes to financial statements.

Clayton Township
Statement of Activities
Year ended March 31, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
General government	\$ 75,131	\$ 1,050	\$ -	\$ (74,081)
Public safety	6,064	2,180	-	(3,884)
Public works	69,628	1,070	3,223	(65,335)
Recreation and culture	<u>4,148</u>	<u>-</u>	<u>-</u>	<u>(4,148)</u>
Total governmental activities	\$ <u>154,971</u>	\$ <u>4,300</u>	\$ <u>3,223</u>	\$ <u>(147,448)</u>
General Revenues:				
Property taxes and fees				53,044
State-shared revenues				79,479
Interest and investment earnings				2,161
Other				<u>2,575</u>
Total general revenues				<u>137,259</u>
Change in Net Assets				(10,189)
Net assets - beginning of year				<u>261,125</u>
Net assets - end of year				\$ <u>250,936</u>

See accompanying notes to financial statements.

Clayton Township
Governmental Funds
Balance Sheet
March 31, 2005

	General Fund	Road Fund	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 207,485	\$ -	\$ 207,485
Receivables-net	2,569	-	2,569
Due from other funds (Note 6)	8,594	-	8,594
Due from other governments	16,147	3,002	19,149
Total assets	<u>\$ 234,795</u>	<u>\$ 3,002</u>	<u>\$ 237,797</u>
Liabilities			
Accounts payable	\$ 5,827	\$ -	\$ 5,827
Due to other funds		3,002	3,002
Due to other governments	-	-	-
Deferred revenue	2,569	-	2,569
Total liabilities	<u>8,396</u>	<u>3,002</u>	<u>11,398</u>
Fund balances			
Unreserved:			
General Fund	226,399	-	226,399
Total fund balances	<u>226,399</u>	<u>-</u>	<u>226,399</u>
Total liabilities and fund balances	<u>\$ 234,795</u>	<u>\$ 3,002</u>	<u>\$ 237,797</u>
Fund Balances - Total Governmental Funds			\$ 226,399
Elimination of due to and due from governmental funds			
Due to			
Due from			
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial financial resources, and are not reported in the funds.			
The cost of capital assets is		\$ 49,677	
Accumulated depreciation is		<u>(27,709)</u>	
Special assessments receivables are expected to be collected over several years and are not available to pay current year expenditures			21,968
			2,569
Net Assets of Governmental Activities			<u>\$ 250,936</u>

See accompanying notes to financial statements.

Clayton Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended March 31, 2005

	General Fund	Road Fund	Total Governmental Funds
Revenues			
Property taxes and fees	\$ 32,874	\$ 22,739	\$ 55,613
State-shared revenues	79,479	-	79,479
Charges for services	4,300	-	4,300
Interest and rentals	2,161	-	2,161
Other	5,798	-	5,798
Total revenues	<u>124,612</u>	<u>22,739</u>	<u>147,351</u>
Expenditures			
Current:			
General government	73,701	-	73,701
Public safety	6,064	-	6,064
Public works	46,889	22,739	69,628
Recreation and culture	4,189	-	4,189
Total expenditures	<u>130,843</u>	<u>22,739</u>	<u>153,582</u>
Net changes in fund balances	(6,231)	-	(6,231)
Fund balances - Beginning of year	<u>232,630</u>	<u>-</u>	<u>232,630</u>
Fund balances - End of year	\$ <u><u>226,399</u></u>	\$ <u><u>0</u></u>	\$ <u><u>226,399</u></u>

See accompanying notes to financial statements.

Clayton Township
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (6,231)

Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation.

Depreciation expense	\$	(1,964)	
Capital Outlay		<u>575</u>	(1,389)

Special assessment revenues are recorded in the
statement of activities when the assessment is
set; they are not reported in the funds until
collected or collectible within 60 days of year end

(2,569)

Change in Net Assets of Governmental Activities \$ (10,189)

See accompanying notes to financial statements.

Clayton Township
Fiduciary Funds
Statement of Net Assets
March 31, 2005

	Trust Fund- Pension Fund	Agency Fund Type (Property Tax Collection Fund)
Assets		
Cash	\$ -	\$ 59,792
Investments - at fair value	68,855	-
	<u>68,855</u>	<u>-</u>
Total assets	<u>68,855</u>	<u>\$ 59,792</u>
Liabilities		
Due to other governments	-	54,200
Due to other funds	-	5,592
	<u>-</u>	<u>59,792</u>
Total liabilities	<u>-</u>	<u>\$ 59,792</u>
Net Assets - Held in Trust for Pension Benefits	<u>\$ 68,855</u>	

See accompanying notes to financial statements.

Clayton Township
Fiduciary Funds
Statement of Changes in Net Assets
Year ended March 31, 2005

	Trust Fund- Pension Fund
Additions	
Contributions	
Employer	\$ 5,250
Employee	324
Investment earnings	<u>4,944</u>
Total Additions	10,518
 Deductions	
Benefits	2,669
Administrative expenses	<u>981</u>
Total deductions	3,650
 Net decrease	6,868
 Net Assets Held in Trust for Pension Benefits	
Beginning of the year	<u>61,987</u>
End of the year	<u><u>\$ 68,855</u></u>

See accompanying notes to financial statements.

Clayton Township
Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Clayton Township ("the Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Township:

Reporting Entity

The Township is governed by an elected five member Township Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application criteria, the Township does not contain any component units.

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities. The Township does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The Road Fund is used to account for a voted millage for road improvements in the Township.

Additionally, the Township reports the following funds:

The Pension Trust Fund accounts for the activity of the Township defined contribution retirement plan, which accumulated resources for pension benefit payments to qualified employees.

The Tax Collection Fund accounts for property taxes collected and disbursed to other taxing authorities by the Township as required by law.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions. General revenue includes all taxes.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Clayton Township
Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The taxpayers of the Township have their properties assessed as of December 31 and the related property taxes are levied and become a lien on December 1 for 100% of the taxes which are due February 28. The 2004 taxable value of the Township was \$23,275,332. The 2004 tax levy was .8770 for for general operating purposes and .9771 for roads, raising \$20,409 for general operating purposes and \$22,739 for roads.

Capital Assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

Compensated Absences - There is no liability for compensated absences reported in the government-wide financial statements since no Township employees are provided with sick or vacation pay benefits.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Clayton Township
Notes to Financial Statements
March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Accounting Change - Effective April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No, 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided.

Previous financial statements for the Township have not included the General Fixed Asset Group of Accounts. Capital assets in the governmental activities column of the statement of net assets represent an inventory of assets at estimated acquisition cost of \$ 49,102 as of April 1, 2004.

The fund financial statements focus on major funds rather than fund types.

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state laws for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township adopt its budgets by April 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budget during the year. There were no budget amendments during the year.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

Clayton Township
Notes to Financial Statements
March 31, 2005

Note 2 - Stewardship, Compliance and Accountability

Excess of expenditures over appropriations in budgeted funds:

The Township incurred expenditures in excess of amounts budgeted as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
Road Fund			
Public works	\$ 19,000	\$ 22,739	\$ 3,739

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the Township to make deposits and investments in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Township is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Clayton Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Clayton Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Township Total</u>
Cash and cash equivalents	\$ 207,485	\$ 59,792	\$ 267,277
Investments	-	68,855	68,855
Total	<u>\$ 207,485</u>	<u>\$ 128,647</u>	<u>\$ 336,132</u>

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings and CDs)	\$ 267,277
Investments	68,855
	<u>\$ 336,132</u>

Clayton Township
Notes to Financial Statements
March 31, 2005

Note 3 - Deposits and Investments (Continued)

The deposits of the Township were reflected in the accounts of one financial institutions, of which \$162,881 is covered by federal depository insurance.

The only investments are in the Pension Trust Fund. These investments do not allow risk categorization.

Note 4 - Receivables

Receivables as of year-end for the Township's major fund and fiduciary funds in the aggregate, including applicable allowances of uncollectible accounts, are as follows:

Receivables:	General Fund
Special assessments	\$ <u>2,569</u>
	\$ <u>2,569</u>

Note 5 - Capital Assets

Capital assets activity of the Township's Governmental activities were as follows:

	Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005
Capital assets not depreciated:				
Land	\$ 5,162	\$ -	\$ -	\$ 5,162
Capital assets being depreciated:				
Infrastructure	-	-	-	-
Land improvements	-	575	-	575
Buildings	19,200	-	-	19,200
Furniture & equipment	24,740	-	-	24,740
Subtotal	<u>49,102</u>	<u>575</u>	<u>-</u>	<u>49,677</u>
Accumulated Depreciation				
Infrastructure	-	-	-	-
Land improvements	-	24	-	24
Buildings	17,105	510	-	17,615
Machinery & Equipment	8,640	1,430	-	10,070
Subtotal	<u>25,745</u>	<u>1,964</u>	<u>-</u>	<u>27,709</u>
Net capital assets being depreciated	<u>23,357</u>	<u>(1,389)</u>	<u>-</u>	<u>21,968</u>
Governmental Activities				
Total Capital Assets net of Depreciation	\$ <u>23,357</u>	\$ <u>(1,389)</u>	\$ <u>0</u>	\$ <u>21,968</u>

Clayton Township
Notes to Financial Statements
March 31, 2005

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 1,430
Recreation	24
Total governmental activities	<u>\$ 1,454</u>

Note 6 - Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>		<u>Amount</u>
General Fund	\$ 8,594	General Fund	\$	-
Road Fund	-	Road Fund		3,002
Fiduciary Funds	-	Fiduciary Funds		5,592
Total	<u>\$ 8,594</u>	Total	<u>\$</u>	<u>8,594</u>
 <u>Transfer In</u>		 <u>Transfer Out</u>		
None	<u>\$ 0</u>	None	<u>\$</u>	<u>0</u>

Note 7 - Risk Management

Clayton Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Note 8 - Pension Plan

Clayton Township has a defined contribution plan for board members, through John Hancock Life Insurance Company. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of these contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

Clayton Township
Notes to Financial Statements
March 31, 2005

Note 8 - Pension Plan (Continued)

The Township pension plan agreement specifies which Township positions are covered by the plan. Contributions made by a board member and the Township vest immediately. An board member that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account.

During the year, the Township's required and actual contributions amounted to \$5,250, which was 15% of its current year covered payroll plus fees. Covered payroll was \$29,419. Total payroll was \$47,597.

Employer	\$	5,250
Employee		324
Administration Fees		981
	\$	<u>6,555</u>

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees. The plan held no securities of the Township or other related parties during the year or at the close of the fiscal year.

Note 9 - Joint Area Fire Board

The following financial information as of December 31, 2003 was obtained from the Sterling Area Fire Board.

Total Assets	\$	65,999	<u>Contributions - 2003</u>	
Total Liabilities		58,297	Adams Township	\$ 9,418
Total Equity		7,702	Clayton Township	18,902
Total Revenue		137,864	Deep River Township	<u>38,076</u>
Total Expenditures		132,864		
Increase in Fund Balance		5,000	Total	<u>\$ 66,396</u>

The contributions from local governments were computed based on SEV.

Liabilities include a capitalized lease of \$34,415 at December 31, 2003.

A copy of financial statements may be obtained at the Township hall at 1057 Dobler Road, Sterling, Michigan.

Required Supplemental Information

Clayton Township
Budgetary Comparison Schedule - General Fund
Year ended March 31, 2005

	Budgeted Amounts		Actual	Variance with Amended Budget
	2004 Original	2004 Final		
Fund Balance - Beginning of year	\$ 232,630	\$ 232,630	\$ 232,630	\$ -
Resources (Inflows)				
Property tax and fees	31,500	31,500	32,874	1,374
State-shared revenues	76,000	76,000	79,479	3,479
Charges for services	4,750	4,750	4,300	(450)
Interest and rentals	2,600	2,600	2,161	(439)
Other	3,000	3,000	5,798	2,798
Amounts available for appropriation	<u>117,850</u>	<u>117,850</u>	<u>124,612</u>	<u>6,762</u>
Charges to Appropriations (Outflows)				
General government	91,000	91,000	73,701	(17,299)
Public safety	8,000	8,000	6,064	(1,936)
Public works	56,000	56,000	46,889	(9,111)
Recreation and culture	4,500	4,500	4,189	(311)
Total charges to appropriations	<u>159,500</u>	<u>159,500</u>	<u>130,843</u>	<u>(28,657)</u>
Fund Balance - end of year	<u>\$ 190,980</u>	<u>\$ 190,980</u>	<u>\$ 226,399</u>	<u>\$ 35,419</u>

Clayton Township
 Budgetary Comparison Schedule - Road Fund
 Year ended March 31, 2005

	<u>Budgeted Amounts</u>			Variance with
	<u>2004</u>	<u>2004</u>		<u>Amended</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Budget</u>
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Property tax and fees	<u>23,500</u>	<u>23,500</u>	<u>22,739</u>	<u>(761)</u>
Amounts available for appropriation	<u>23,500</u>	<u>23,500</u>	<u>22,739</u>	<u>(761)</u>
Charges to Appropriations (Outflows)				
Public works	<u>19,000</u>	<u>19,000</u>	<u>22,739</u>	<u>3,739</u>
Total charges to appropriations	<u>19,000</u>	<u>19,000</u>	<u>22,739</u>	<u>3,739</u>
Fund Balance - end of year	<u>\$ 4,500</u>	<u>\$ 4,500</u>	<u>\$ 0</u>	<u>\$ (4,500)</u>



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September 9, 2005

To the Township Board
Clayton Township

We have audited the financial statements of Clayton Township for the year ended March 31, 2005, and have issued our report thereon dated September 9, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Clayton Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Clayton Township are described in Note 1 to the financial statements. The Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis – for State and Local Governments (GASB No. 34) on April 1, 2004. We noted no transactions entered into by Clayton Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Clayton Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Clayton Township, either individually or in the aggregate, indicates matters that could have a significant effect on the Clayton Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Clayton Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Other Matters

We have issued a separate letter of comments and recommendations regarding internal control and compliance matters to the Board in a letter dated September 9, 2005.

This information is intended solely for the use of the Township Board and management of Clayton Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


ROBERTSON & CARPENTER, LLP
Certified Public Accountants